**Terms of Trade questions from the HSC**

1. The table shows data for a nation’s terms of trade.

|  |  |  |
| --- | --- | --- |
| *Year* | *Export Price Index* | *Import Price Index* |
| 1 | 100 | 100 |
| 2 | 110 | 106 |
| 3 | 115 | 110 |

Which of the following statements about this nation’s terms of trade is correct?

(A) They improved from Year 1 through to Year 3.

(B) They deteriorated from Year 1 through to Year 3.

(C) They deteriorated from Year 1 to Year 2 and then improved from Year 2 to Year 3.

(D) They improved from Year 1 to Year 2 and then deteriorated from Year 2 to Year 3.

2. An economy is a net importer of commodities and a net exporter of manufactured goods.

Which of the following will lead to a deterioration in its terms of trade?

(A) The volume of manufactured exports increases relative to the volume of commodity imports.

(B) The volume of manufactured exports decreases relative to the volume of commodity imports.

(C) The prices for commodities increase relative to prices for manufactured goods on world markets.

(D) The prices for manufactured goods increase relative to commodity prices on world markets.

1. The table shows selected data for a hypothetical economy.

|  |  |  |
| --- | --- | --- |
| *Year* | *Export price index* | *Import price index* |
| 1 | 100 | 100 |
| 2 | 110 | 105 |
| 3 | 130 | 140 |

Which statement is correct for this economy?

(A) In Year 2 import prices rose faster than export prices.

(B) In Year 3 export prices rose faster than import prices.

(C) In Year 3 a given volume of exports will buy a larger volume of imports.

(D) In Year 3 a given volume of exports will buy a smaller volume of imports.

4. Which of the following could explain a movement in Australia’s Terms of Trade index from 110 to 106?

(A) A rise in export prices relative to import prices

(B) A rise in import prices relative to export prices

(C) A fall in the quantity of goods imported relative to goods exported

(D) A fall in the quantity of goods exported relative to goods imported

5. Which of the following measures the terms of trade for an economy?

(A) The ratio of export income to import expenditure

(B) The prices of exports compared to the prices of imports

(C) The difference between export income and import expenditure

(D) The volume of imported goods compared to the volume of exported goods